



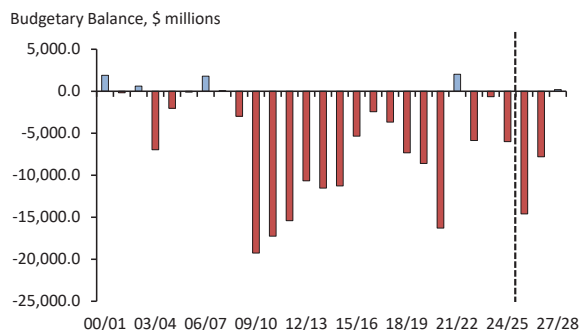
Ontario Budget 2025

Balancing of Ontario's provincial budget pushed out as trade war hits

It should not be a surprise, but the shifting ground from the current trade war is laying waste or at least delaying government plans to balance their books. Ontario tabled its Budget on Thursday, and is projecting deeper deficits than Budget 2024, persisting through 2026/27 before returning to balance in 2027/28. Deeper deficits reflect a much more challenging outlook for the economy amidst the trade war alongside modest measures to boost investment and support potentially impacted sectors during the period. The key theme of the budget remained one of economic uncertainty, with the government precautionary support and providing support if needed, and ongoing investment in infrastructure.

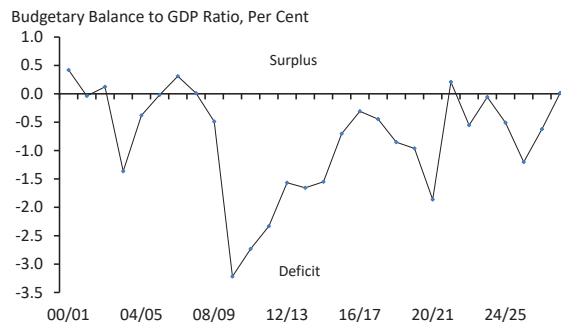
The Ontario government's estimated deficit for 2024/25 is smaller than previously projected at \$6 billion, but balloons to \$14.6 billion in 2025/26 (\$10 billion more than in Budget 2024, and is forecast to be \$7.8 billion in 2026/27 compared to the small fiscal surplus projected last year. This includes \$2 billion in contingency reserves through the fiscal plan providing some buffer. While the deficit is numerically large, levels are still modest in relation to the economy's size and much lower than that observed during COVID-19 and the 2008/09 downturn. That said, deficits will continue to add to debt, with net debt rising to \$460B, or 38 per cent of GDP in 2025/26.

Ontario to maintain large deficits but plans a path to balance



Source: 2025 Ontario Budget
Central 1 Credit Union

Deficits still reasonably sized in relation to economy



Source: 2025 Ontario Budget
Central 1 Credit Union calculation

The Budget reflects a policy statement by the government and an exercise in communication to soothe public concerns in response to threats to the economy from the trade environment.

Indeed, there were modest new spending initiatives with the Budget with a focus on support resilience through business tax deferrals, modest new training funds for affected workers (\$20 million), rebates and lowering of premiums through the Workers Safety and Insurance Board, and creation of funds to support liquidity needs if necessary, and more tax credit to support manufacturing investment. The government announced that the gasoline tax cut already in effect would be made permanent. The total value of new and recent tax related measures was about \$5.3 billion over the fiscal plan.

Adding to this and aligned with general themes since the trade war intensified, a critical minerals process fund (\$500 million), more for the Ontario Fund (\$600 million) to support growth, \$200 million related to ship building, and measures to lower internal trade barriers.

The Fiscal Outlook

With modest new spending and tax measures, Ontario's ballooning deficit for fiscal year 2025/26 reflects a downturn in expected revenue, even as expense growth is projected to be modest.

Government expenses are forecast to rise 2.2 per cent in fiscal year 2025/26 but slowing from 8.5 per cent in 2024/25. Health (2.0 per cent) and education (6.8 per cent) lead the way, but there is a sharp drag from the post-secondary sector as fewer international students have driven cuts in those areas. Interest and debt services costs rose 6.6 per cent. The government expects to hold the line on spending thereafter with growth of less than one per cent, although it remains to be seen if this is possible. Spending on health and education are expected to slow rapidly, with cuts incorporated in other segments of spending.

On the economy, the Ontario government has axed its growth forecast compared to a year ago which is not surprising. While 2024 proved stronger than expected, the government's baseline forecast is for slow growth this year and next as the trade war hits the economy and flows through the labour market. Its real GDP growth assumption is 0.8 per cent this year, 1.0 per cent in 2026 and 1.9 per cent in 2027. Nominal GDP,

which is the best proxy for the tax base sits at 3.0 per cent this year and next, and 4.0 per cent in 2027. The government sets its GDP outlook slightly below the average of private sector forecasts for prudence and in line with best practices. Given the high level of economic uncertainty, it also provided alternative faster and weaker growth scenarios which could drive either surplus or deficits by 2027/28 but are provided to bound the uncertainty.

Revenue forecasts are driven by the nominal GDP outlook, and the government sees total revenue slipping 0.8 per cent in 2025, before rebounding 3.6 per cent and 4.4 per cent thereafter. Tax revenues are forecast to rise 0.6 per cent this year, dragged down by corporate profits/taxes, before rebounding by 4.9 and 5.3 per cent thereafter as personal income tax growth accelerates. Overall revenue growth is weighed down by crown corporations and non-tax revenue (led by third party revenue from colleges and related to lower population).

Summary Table: Ontario Budget and Fiscal Plan 2025/26 - 2027/28					
(\$ billions)	2023/24	2024/25 Forecast	Budget & Fiscal Plan		
			2025/26	2026/27	2027/28
Revenue	209	221.6	219.9	227.9	237.9
Expense	209.7	227.6	232.5	233.7	235.7
Fiscal Balance Before Reserve	-0.7	-6.0	-12.6	-5.8	2.2
Reserve	-	-	2.0	2.0	2.0
Fiscal Balance	-0.7	-6.0	-14.6	-7.8	0.2
Taxation Revenue					
Personal Income Tax	50.8	56.3	57.8	61.3	65.2
Sales Tax	39.9	39.4	40.1	41.6	43.6
Corporations Tax	23.1	27.9	26	27.7	29.4
All Other Taxes	28.1	29.2	29.9	30.8	31.6
Non-taxation Revenue					
Government of Canada	34.3	36.4	38.8	39.3	39.8
Income from Government Business Enterprises	7.4	7.4	6.3	6.9	7.7
Other Non-Tax Revenue	25.4	25	21	20.3	20.6
Expenses					
Health Sector	85.2	89.3	91.1	92.4	93.6
Education Sector	37.1	38.4	41	41.1	41.3
Postsecondary Education Sector	13.3	14.2	13	13.1	12.8
Children, Community and Social Services Sector	19.3	20.6	20.4	20.4	20.4
Justice Sector	6	6.5	6.7	6.5	6.4
Other Programs	34.4	40.6	44.1	43.1	43.3
Interest and Other Debt Servicing Charges	14.5	15.2	16.2	17	17.8
Net Debt as a Per Cent of GDP	36.4%	36.3%	37.9%	38.9%	38.6%
Net Debt as a Per Cent of Revenue	198.1%	195.4%	211.4%	215.4%	212.4%

Source: 2025 Ontario Budget